

Audit of companies owned by local authorities



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Experience with the audit of financing instruments

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Audit mandate



Vienna City Constitution

- Stake in the company of at least 50 %
 - by the City of Vienna alone
 - or together with other entities within the scope of the competence of the Court of Audit of the City of Vienna
- Actual control of the entity through financial or other economic or organisational means
 - by the City of Vienna alone
 - or together with other entities within the scope of the competence of the Court of Audit of the City of Vienna
- Companies at every other tier which meet the two above criteria



Auditee's

- 180 stock corporations
 - Of which 30 are direct companies
 - Two of the direct companies are holding companies
- Other forms
 - 65 funds and trusts
 - 12 other entities

Groups of companies



Wiener Stadtwerke Group

- In 1999 spin-off from the City administration, the group incorporates companies which provide infrastructure and services of public interest
general interest services GIE
- Fields: Energy, energy grids, public transport, funeral services and cemeteries, car parks
- Key data 2017
 - 33 consolidated companies
 - approx. 16,100 employees
 - Total assets: approx. 14.2 bn EUR
 - Revenue: approx. 3.5 bn EUR
 - Loss after taxation: approx. -55 m EUR

Groups of companies



Wien Holding Group

- Incorporation of the holding company in 1974, several reorganisations until 2001, latest restructuring of the group in 2002
- Fields: Real estate, cultural facilities, cargo & mobility, media & other services
- Key data 2017
 - 57 consolidated companies
 - approx. 2,900 employees
 - Total assets: approx. 982 m EUR
 - Revenue: approx. 170 m EUR
 - Profit after taxation: approx. 23 m EUR



Means of financing

- External financing
 - Equity financing by the existing owners
 - Equity financing by bringing on board new owners
 - Debt financing
- Internal financing
 - Earmarking of goods and services surpluses
 - Self-financing
 - Restructuring of assets
- Other means
 - Dual financing
 - Cash pooling

Audit of financing instruments



Bonds and registered bonds

- Characteristics
 - Medium and long-term financing instrument
 - Bonds are tradable on the stock market
 - Registered bonds are only transferable through assignment
 - Different law applicable
- Auditee: Wien Holding
- Reason
 - Refinancing of expiring bonds in 2015
 - New investments in different fields of the group
 - Liquidity boost
- Period
 - Issue 2013
 - Redemption 2023

Audit of financing instruments



Bonds and registered bonds

- Substantial audit findings
 - No group policy for a centralised financing management
 - No records of internal costs
 - No substantial information provided to the Supervisory Board
 - A specific contract clause could trigger a special right of termination for the bond holders
 - Few project investments
 - The group will not be able to redeem the 3rd bond loan when it is due from the operating results
 - Additional expenses for interest of 6 m EUR due to mismatching maturities between the issue of the 3rd bond loan in 2013 and the redemption payment of the 2nd bond loan in 2015

Audit of financing instruments



Lease in combination with de-risking instruments

- Characteristics Lease
 - Restucturing of assets
 - Forms: Capital Lease und Operate Lease
- Characteristic de-risking instruments
 - Fulfillment of contract at a later time but at a price agreed at trade date
 - Nature of trade is an underlying
 - Hedge against future market development
 - Transfer of risks
 - Forms: Derivatives / Swaps
- Auditee: Wiener Stadthalle
- Reason
 - Financing the cost of construction of a new event hall with a capital lease
 - De-risking increasing interest rates of the lease
- Period
 - Lease: 2006 bis 2035
 - Cost of construction: approx. 33 m EUR

Audit of financing instruments



Lease in combination with de-risking instruments

- Substantial audit findings
 - No bids from other financial consultants obtained
 - No information about the development of market values in the annual accounts
 - No substantial risk reporting vis-à-vis the Supervisory Board
 - Lacking risk management
 - High consultancy costs
 - Loss of 8 m EUR due to the de-risk instruments until September 2015

Audit of financing instruments



Cross-Border-Lease

- Characteristics
 - Cross-border-lease contract between lessee und lease provider
 - Main lease agreement and sublease agreement, several players involved
 - Tax benefit for the US-lease-provider
 - Net present value benefit for the lessee
- Auditee: Wiener Linien
 - 7 cross-border-lease contracts of rail vehicles
- Reason
 - Additional revenue to cover investments
- Period
 - 1998 - 2003
 - Contract period: up to 40 years

Audit of financing instruments



Cross-Border-Lease

- Substantial audit findings
 - Consultancy fees
 - Language risk
 - Complexity of the contracts
 - Premature termination of contract and limited availability
 - General contacting party risk
 - Insolvency risk of the co-contractors and of the involved trusts
 - Deterioration of ratings
 - Exchange rate and interest risks
 - Long terms
 - Final net present value benefit will only be available after the end of all transactions

Audit of financing instruments



Cash Pooling

- Characteristics
 - Balancing of liquidity between holding company and group companies
 - Central cash management by the holding company
 - Short term liquidity covering at favourable terms
- Auditee: Wiener Lokalbahnen Cargo
- Reason
 - Avoiding gearing
- Period
 - 2015

Audit of financing instruments



Cash Pooling

- Substantial audit findings
 - High investments despite a negative liquidity outlook
 - Risk of distribution of profit to the holding company by cash pool overdrafts
- General risks with cash pooling
 - Lack of sufficient controls and monitoring
 - Accumulation of default risks
 - Group companies may lose their economic independence
 - Liability risks in terms of raising and maintaining capital



General findings

- Often the wrong financing instrument
 - Reason
 - Period
- Mostly high complexity
 - Lacking know-how
 - Transaction and consultancy fees
 - Volatility of the financial markets
- Time Lag when it comes to urgently needed decisions by the owners
 - How is participation management organised? (strategy, controlling, administration, mandate)

Links, sources, questions



- Homepage City of Vienna Court of Audit
(<https://www.stadtrechnungshof.wien.at>)
- Homepage Wiener Stadtwerke Konzern
(<https://www.wienerstadtwerke.at>)
- Homepage Wien Holding Konzern
(<https://www.wienholding.at>)

Thank you for your attention!